#### PUBLIC DISCLOSURE

February 26, 2004

#### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MERCANTILE BANK & TRUST COMPANY

61 BROOKLINE AVENUE

**BOSTON**, MA 02215

DIVISION OF BANKS ONE SOUTH STATION BOSTON, MA 02110

NOTE:

This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.

#### GENERAL INFORMATION

The Community Reinvestment Act (or CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Mercantile Bank and Trust Company (Mercantile Bank or the Bank) prepared by the Division, the institution's supervisory agency.

## **INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory"

The overall rating of satisfactory is based on the five criteria that encompasses the Community Reinvestment Act regulation for small insitutions. Mercantile Bank and Trust Company is considered to meet the standards for satisfactory performance in all five areas consisting of net loan to deposit ratios, lending inside and outside its assessment area, the distribution of credit among borrowers of different income levels and businesses of different sizes, the geographic distribution of loans, and fair lending policies and practices.

The net loan-to-deposit ratio has fluctuated over the time period reviewed. The highest ratio occurred on December 31, 2003, with 75.1 percent, while the lowest ratio was 54.9 percent on June 30, 2003. Loan growth has slightly outpaced deposit growth during this time period as loans increased approximately 23.9 percent, while deposits increased approximately 22.1 percent. The average net loan-to-deposit ratio over the past eight quarters reviewed was 68.6 percent.

The majority of loans originated during the examination period were inside the Bank's assessment area. During 2002 and 2003, Mercantile Bank originated 166 small business loans totaling \$37,286,128. Of these loans, 113 or 68.1 percent totaling \$22,907,111 were originated inside the Bank's assessment area. An additional analysis of the bank's Home Mortgage Disclosure Act (HMDA) reportable loans indicated that the bank originated 39 loans, of which, 22 or 56.4 percent were originated within the Bank's assessment area.

A review of the Bank's small business loans originated within the assessment area indicates that 34.5 percent had dollar amounts less than \$100,000, while 42.5 percent had dollar amounts between \$100,000 and \$250,000. An additional review of the Bank's HMDA reportable loans from 2002 and 2003 were also reviewed by income of the borrower. This analysis indicated that Mercantile Bank originated 4 or 18.2 percent of its HMDA reportable loans within the assessment area to low and moderate-income borrowers.

Mercantile Bank originated 15.9 percent of its small business loans throughout its assessment area to low-income census tracts. Moderate-income census tracts accounted for 41.6 percent of the originations, followed by middle-income census tracts with 31.9 percent and upper-income census tracts with 10.6 percent. An additional review of the Bank's HMDA reportable loans from 2002 and 2003 was also reviewed. This analysis indicated that Mercantile Bank originated 4 or 18.2 percent of its HMDA reportable loans within the assessment area to low-income census tracts. Moderate-income census tracts accounted for 31.8 percent of the originations, followed by middle-income census tracts at 27.3 percent and upper-income census tracts with 22.7 percent.

The Bank has not received any complaints regarding its CRA performance since the last examination and fair lending policies and practices were adequate.

### PERFORMANCE CONTEXT

## **Description of Institution**

Mercantile Bank & Trust Company is a state chartered stock-owned institution with \$93.8 million in assets as of December 31, 2003. The Bank operates three full-service offices: its main office located at 61 Brookline Avenue in Boston, a branch office located at 423 Washington Street in Brighton, and a branch office at 1320 Washington Street in the South End of Boston. The office at 423 Washington Street in Brighton was opened in September 2001, while the branch at 1320 Washington Street in Boston was opened on October 1, 2003. This branch office is located in a low-income census tract, while the other two offices are located in middle-income census tracts. Mercantile Bank is a wholly owned subsidiary of Mercantile Capital Corporation, a one-bank holding company.

Refer to the following table for information on the composition of the Bank's loan portfolio.

## **Loan Portfolio Composition**

Loan Type	Amount (000s)	Percent		
Commercial Real Estate	\$ 22,716	36.7		
Commercial & Industrial	\$ 15,128	24.4		
One to Four-Family Residential Mortgages	\$ 12,245	19.8		
Multi-Family	\$ 9,959	16.1		
Equity Lines of Credit	\$ 1,351	2.1		
Consumer Loans	\$ 372	0.6		
Construction and Land Development	\$ 201	0.3		
Total Gross Loans	\$ 61,972	100.0		

Source: December 31, 2003 Consolidated Report of Condition.

Mercantile Bank is primarily a commercial lender providing commercial real estate loans and other forms of commercial financing, including loans guaranteed by the Small Business Administration (SBA) to small and medium sized businesses, loans secured by taxi medallions, consumer loans, and home equity credit lines throughout the Boston area. Although Mercantile Bank has shifted away from residential lending, the Bank has a relationship with Northeast Home Loan, LLC (NE Home Loan), in which the Bank receives residential mortgage applications and forwards them to NE Home Loan, who ultimately makes the credit decision and funds the loan. Mercantile Bank began this relationship with NE Home Loan in August 2002. From August 2002 through December 31, 2003, Mercantile Bank has brokered 78 residential loans totaling \$18,149,709 for NE Home Loan.

## **Description of Institution (continued)**

There are no significant financial or legal impediments, which limit the Bank's ability to help meet the credit needs of the community. The Bank's most recent CRA evaluation, performed by the Federal Depositors Insurance Corporation (FDIC) as of February 1, 2002 assigned the institution a rating of "Satisfactory." The previous evaluation performed by the Division as of July 6, 1999, also assigned a rating of "Satisfactory."

## **Description of Assessment Area**

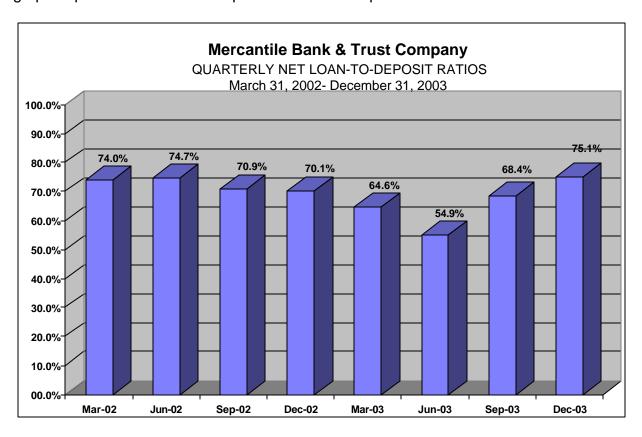
Mercantile Bank defines its assessment area as the Cities and Towns of Boston, Arlington, Belmont, Brookline, Cambridge, Dedham, Lexington, Medford, Milton, Needham, Quincy, Somerville, Waltham, Watertown, Weston, Winchester and Woburn.

According to the 2000 census data, the population of the Bank's current assessment area was 1,200,509 of which 35.4 percent are minorities. The assessment area consists of 290 census tracts, of which 46 or 15.9 percent is designated as low-income, 84 or 29.0 percent as moderate-income, 105 or 36.2 percent as middle-income, 54 or 18.6 percent as upper-income, and 1 or 0.3 designated as N/A.

### PERFORMANCE CRITERIA

#### 1. LOAN TO DEPOSIT ANALYSIS

An analysis of Mercantile Bank and Trust Company's net loan-to-deposit ratio was performed during the examination. The analysis utilized the last eight quarters of the FDIC Call Report data for this institution. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The Bank's net loans to total deposits as reported to the FDIC were reviewed for the guarters beginning March 31, 2002 through December 31, 2003. The Bank's average net loan to deposit ratio for this time period was determined to be 68.6 percent which is reasonable given the size of the institution and the competitive market in which it operates. The net loan-to-deposit ratio has fluctuated over the time period reviewed. The lowest ratio was 54.9 percent on June 30, 2003 and the highest ratio was 75.1 percent on December 31, 2003. The asset size of the institution has increased from \$78,103.000 as of March 31, 2002, to \$93,807,000 as of December 31, 2003, which represents a 20.1 percent increase. Loan growth has slightly outpaced deposit growth during this time period as loans have increased approximately 23.9 percent, while deposits have increased approximately 22.1 percent. However, the deposits were at an all time high on June 30. 2003 and have decreased by 9.5 percent as of December 31, 2003. This was due in part of the volatility of the bank's deposits and the timing of certain withdrawals. The following graph depicts the net loan-to-deposit ratio for each quarter under review:



## LOAN TO DEPOSIT ANALYSIS (continued)

Based on the above information and Mercantile Bank's capacity to lend, the strong competition from other institutions in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area, the Bank's net loan to deposit ratio is considered to meet the standards for satisfactory performance.

# 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Mercantile Bank's 2002 and 2003 small business loans were reviewed to determine the amount of credit extended within the Bank's assessment area.

An analysis of the following type of loans was conducted commercial real estate, SBA, commercial and industrial, and loans secured by taxi medallions. All of these loans less than \$1,000,000 were included as part of this review.

Refer to the following table for information regarding Mercantile Bank's lending for calendar years 2002 and 2003 by number and dollar volume inside and outside of the assessment area.

Distribution of Business Loans Inside and Outside of the Assessment Area										
Year		In	side		Outside					
			Dollar in Loans (000s)		_	ber of ans	Dollars in Loans (000s)			
			\$	%	#	%	\$	%		
2002	52	85.2%	9,323,550	76.8%	9	14.8%	2,820,000	23.2%		
2003	61	58.1%	13,583,561	54.0%	44	41.9%	11,559,017	46.0%		
Total	113	68.1%	22,907,111	61.4%	53	31.9%	14,379,017	38.6%		

Source: Internal Records – 2002 and 2003

As indicated in the table above, the majority of loans originated during the examination period were inside the Bank's assessment area. Mercantile Bank originated 166 small business related loans totaling \$37,286,128. Of these loans, 113 totaling \$22,907,111 were originated inside the Bank's assessment area. As noted above, the level of lending has increased substantially from 2002 to 2003. The number of originations increased by 72.1 percent, while the dollar volume increased 107.1 percent.

A review of Mercantile Bank's HMDA reportable loans for 2002 and 2003 was also conducted. This analysis indicated that the Bank originated 39 HMDA reportable loans during this time period, of which 22 or 56.4 percent were originated within the Bank's assessment area.

## COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S) (continued)

Based on the above information, the Bank's extension of credit inside and outside of the assessment area is considered to meet the standards for satisfactory performance.

## 3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES OF DIFFERENT SIZES

As Mercantile Bank is primarily a business lender, this lending was weighed more heavily than the Bank's HMDA loans in evaluating the Bank's performance in this criteria. An analysis of the Bank's business loans with a dollar amount equal to or less than \$1,000,000 was reviewed.

The small business loans originated within the Bank's assessment area were analyzed to determine the typical loan amount at origination. The majority of the 113 small business loans originated in the Bank's assessment area, during this time period had gross annual revenues of less than \$1,000,000. The following table depicts the distribution of small business loans within the Bank's assessment area by loan amount at origination.

Distribution of Small Business Loans by Loan Size										
Loan Size (000s)	AGGREGATE LENDING 2002		2002		2003		Total			
	#	%	#	Borrowe r %	#	%	#	%		
< \$100	25,510	94.5%	19	36.5%	20	32.8%	39	34.5%		
\$100 - \$250	631	2.3%	24	46.2%	24	39.3%	48	42.5%		
> \$250 -\$1,000	866	3.2%	9	17.3%	17	27.9%	26	23.0%		
Total	27,007	100.0%	52	100.0%	61	100.0%	113	100.0%		

Source: Internal Records – 2002 and 2003

As noted in the above table, 34.5 percent of Mercantile Bank's small business loans had dollar amounts less than \$100,000, while 42.5 percent had dollar amounts between \$100,000 and \$250,000. Aggregate lending indicates that 94.5 percent of the small business originations within the assessment area had dollar amounts less than \$100,000.

HMDA reportable loans from 2002 and 2003 were also reviewed by borrower income. This analysis indicates that Mercantile Bank originated 4 or 18.2 percent of its HMDA reportable loans within the assessment area were to low and moderate-income borrowers.

Based on the above information, Mercantile Bank is considered to meet the standards for satisfactory performance in lending to businesses of different sizes and borrowers of different incomes.

#### 4. GEOGRAPHIC DISTRIBUTION

Small business loans originated within the Bank's assessment area were further analyzed to determine their location by census tract income level. As mentioned in the performance context, Mercantile Bank's assessment area is comprised of 290 census tracts: 46 or 15.9 percent as low-income, 84 or 29.0 percent as moderate-income, 105 or 36.2 percent as middle-income, 54 or 18.6 percent as upper-income, and 1 or 0.3 designated as N/A.

The following table provides a breakdown, by number and dollar amount, of the Bank's small business loans within its assessment area according to the census tract income level. The table also illustrates the comparison of the 2000 census information compared to the Bank's activity in those tracts.

<u>Distribution of Small Business Loans within the Assessment Area by</u>
<u>Census Tract Income Level by Number</u>

Census Tract Income Level			2002		2003		Total	
	#	%	#	%	#	%	#	%
Low	46	15.9%	6	11.5%	12	19.7%	18	15.9%
Moderate	84	29.0%	24	46.2%	23	37.7%	47	41.6%
Middle	105	36.2%	17	32.7%	19	31.1%	36	31.9%
Upper	54	18.6%	5	9.6%	7	11.5%	12	10.6%
N/A	1	0.3%	0	0.0%	0	0.0%	0	0.0%
Total	290	100.0	52	100.0	61	100.0	113	100.0

Source: Internal Data - 1/1/02 to 12/31/03

As indicated in the above table, Mercantile Bank originated 15.9 percent of its small business loans throughout the assessment area within low-income census tracts. Moderate-income census tracts accounted for 41.6 percent of the originations, followed by middle-income census tracts with 31.9 percent and upper-income census tracts with 10.6 percent.

HMDA reportable loans from 2002 and 2003 were also reviewed. This analysis indicated that Mercantile Bank originated 4 or 18.2 percent of its HMDA reportable loans within its assessment area to low-income census tracts. Moderate-income census tracts accounted for 31.8 percent of the originations, followed by middle-income census tracts at 27.3 percent and upper-income census tracts with 22.7 percent.

Based on the analysis of the geographic distribution of small business and HMDA reportable loans, the Bank has penetrated census tracts of different income levels including low and moderate-income tracts. Mercantile Bank performance in this criterion is considered to meet the standards for satisfactory performance.

#### 5. FAIR LENDING POLICES AND PRACTICES

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination. In addition, a review of the bank's HMDA loan application files and small business loan files was conducted to evaluate the bank's fair lending procedures. There were no discriminatory practices noted during the examination.

The Bank's internal training program includes the use of videotapes and internal seminars.

The Bank's staff volunteers their time to a variety of area organizations in need of their training and expertise. The Bank markets it services and products to the community through a variety of mediums, with the majority focusing on print advertisements for small business and commercial loans.

#### OTHER SERVICES

In October, 2003, the Board of Directors of Mercantile Bank created a Social Responsibility Committee to ensure that all strategic plans, service and financial initiatives, and use of organizational resources are consistent with the bank's guiding principle to be a truly responsible corporate citizen.

The Social Responsibility Committee guiding principles are two fold:

- Identify areas of need where the Bank can make meaningful and quantifiable differences in improving the lives, well being, or economic condition of community residents and to do so in a sustainable manner.
- 2) Oversee an appropriate allocation of bank resources consistent with safe and sound banking practices to achieve the goals of the social responsibility guiding principles.

Through the efforts of the Social Responsibility Committee, the Bank has employees that have completed training and are certified as Bankers/Teachers. These individuals have been certified to teach students at local Boston schools through a curriculum program that consists of four weeks at an hour at a time. Most recently, Bank representatives conducted classes focusing on financial literacy at the Lewenburg Middle School in Mattapan.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:
  - "You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 61 Brookline Avenue, Boston, MA 02215.
- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing.

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.